

NATIONAL SECURITY COUNCIL MEETING
EAST-WEST ECONOMIC RELATIONS

14 JULY 1981

TABLE OF CONTENTS

TAB A	Background Paper
TAB B	NSC Discussion Papers
TAB C	USSR-Western Europe: Implications of the Siberia-to-Europe Gas Pipeline
TAB D	Foreign Availability of Petroleum Equipment
TAB E	DCI 9 July Memorandum on Siberian Pipeline

National Security Council MeetingEast-West Economic Relations

2 July 1981

Background

I understand that this meeting is being called at Richard Allen's request in order to develop a policy on East-West economic relations prior to the Economic Summit. Four issues are to be discussed. Decisions are not expected until another NSC meeting, likely to be called about a week later.

CIA Involvement in the Policy Process

The NSC meeting is the culmination of deliberations by the Interagency Group (IG) on East-West Economic Relations and its sub-groups since the end of February 1981. CIA has actively participated in the process leading up to tomorrow's meeting. In support of the IG and the sub-groups, Agency personnel prepared studies on Western leverage against the USSR and Eastern Europe, Soviet need for Western oil and gas equipment, the proposed Siberia-to-Europe gas pipeline, and foreign availability of oil and gas equipment. The latter two studies were passed to you on 30 June. In addition, we provided a number of comments on possible options for controlling exports of strategic goods and oil and gas equipment to the USSR and Eastern Europe, and provided inputs to Treasury's study on Soviet and East European debt. We have actively participated in all of the sub-group meetings held on strategic controls and energy.

Areas of Possible ContentionSecurity Controls on Exports to the USSR

Defense has pushed hard for a much more restrictive policy than at present. Option III would require acceptance by our Allies of a fundamentally new approach to export controls -- namely, an attempt to hinder Soviet military development by weakening the overall economic base. No one believes our Allies would buy this. Option II covers a wide range of possibilities. Interpreted broadly, it too would require a major change in the policies of our Allies. Interpreted narrowly, there is probably some potential for expanded controls under present criteria. But such an expansion would substantially increase the difficulty of establishing clear links between the items to be controlled and Soviet military programs, and consequently would increase the requirement for intelligence support.

In any event we have expressed the opinion that existing controls could be tightened by eliminating the current

requirement of end-user determination, terminating the differential treatment of the USSR and Eastern Europe, and pursuing a significantly tougher compliance policy to plug widespread leakiness in present controls. These points are not specifically addressed in the NSC paper.

Controls on Export to the USSR of Oil and Gas Equipment and Technology.

CIA believes that unilateral U.S. controls would have little effect. We base this judgment on assessments of Soviet capabilities and foreign availability, the latter resulting from canvassing major U.S. suppliers of oil and gas equipment. With one major exception -- high capacity electric submersible pumps -- oil and gas equipment and technology are available from one or more foreign suppliers. The NSC paper asserts that "experts" disagree on this issue. All the experts that we know of in other departments, including DoD, agree with us. Nevertheless, we expect DoD to express a contrary view.

The denial of U.S. oil equipment, even if supported by other Western countries, would probably make a difference of only some 200,000-300,000 b/d in Soviet oil production through the mid-1980s. The impact would grow greatly in the longer-term, especially in comparison with the large potential for developing offshore and deep deposits with Western help

U.S. Position on Siberian Pipeline.

The same issue of foreign availability is raised in connection with this policy question. We strongly believe that the USSR would have little difficulty obtaining all the Western equipment it needs from foreign suppliers. We do not know any expert who disagrees.

License for Caterpillar Company to export 100 pipelayers to the Soviet Union.

It might be useful to point out that Fiat-Allis of Italy will soon be producing pipelayers and getting Komatsu's cooperation may no longer be sufficient to prevent pipelayer exports to the USSR.

Other Matters

The question of controlling foreign production under U.S. licenses may be raised. In the petroleum and pipeline-related equipment areas, there is little production of this sort. And, unless the licensee is specifically prohibited in the agreement from selling to the USSR, the licensor has no control. Moreover, host country reaction to attempted pressure would be strong.